

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**Financial Report
with Supplemental Information
Prepared in Accordance with GASB 34**

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

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Board of Education
Watersmeet Township School District
P.O. Box 217
Watersmeet, Michigan 49969

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Watersmeet Township School District**, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

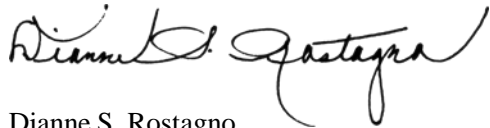
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Education, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Watersmeet Township School District** at June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 26, 2006, on our consideration of the **Watersmeet Township School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The administration's discussion and analysis and budgetary comparison information on pages 8 through 20 are not a required part of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinions on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Watersmeet Township School District's** basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the **Watersmeet Township School District**, Watersmeet, Michigan. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno", written in a cursive style.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

July 26, 2006

ADMINISTRATION'S DISCUSSION AND ANALYSIS

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

The **Watersmeet Township School District**, is a K-12 school district located in Gogebic County, Michigan.

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the **Watersmeet Township School District's** discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in the relevant funds, including Debt Service, Capital Projects, and the School Service Funds, which are comprised of Food Service and Athletics, and Nimrod Mania.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term debt obligations are recorded as expenditures. Future years' debt obligations are not recorded.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
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District-wide Financial Statements

The *District-wide Financial Statements* are full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Fund solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets on the *District-wide Financial Statements*.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity and scholarship funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Assets:

The following summarizes the comparative net assets at fiscal years ended June 30, 2006 and June 30, 2005:

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Summary of Net Assets: (Continued)

NET ASSETS SUMMARY

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>Assets</u>		
Current Assets	\$ 1309821	\$ 1401545
Capital Assets	8420257	8316529
Less: Accumulated Depreciation	<u>(1096729)</u>	<u>(884931)</u>
Total Assets	8633349	8833143
<u>Liabilities</u>		
Current Liabilities	587890	718535
Long-term Liabilities	<u>6722875</u>	<u>6931792</u>
Total Liabilities	7310765	7650327
Net Assets		
Invested in Capital Assets, Net of Related Debt	416862	(51609)
Reserved for Food Service	20487	14779
Reserved for Debt Service	131972	126045
Reserved for Capital Projects	95977	68340
Reserved for Special Projects	130179	99213
Reserved for Athletics	4879	4771
Unreserved and Undesignated	<u>522228</u>	<u>921277</u>
Total Net Assets	\$ 1322584	\$ 1182816

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Analysis of Financial Position

During fiscal year ended June 30, 2006, the District's net assets increased by \$ 137,101 (before the principal adjustment on the energy conservation bonds.) A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's revenues from General Fund operations exceeded expenditures by \$ 161,512. General Fund revenues increased by \$ 272,605 from the last fiscal year, while General Fund expenditures increased by \$253,550 from the prior year.

B. Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>June 30, 2005</u>	<u>Additions</u>	Principal Payments <u>Applied</u>	Principal Balance <u>June 30, 2006</u>
2002 Building & Site Bonds	\$6750000	\$ 0	\$190000	\$6560000
2003 Energy Conservation Improvement Bonds	373333	0	26667	346666
Long-Term Employee Benefits	<u>88688</u>	<u>28012</u>	<u>24221</u>	<u>92479</u>
Totals	\$7212021	\$28012	\$240888	\$6999145

WATERSMEET TOWNSHIP SCHOOL DISTRICT

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C. Net Investment in Capital Assets

The District's net investment in capital assets is as follows:

	Balance June 30, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>
Capital Assets	\$ 8316529	\$ 103728	\$ 0	\$ 8420257
Less: Accumulated Depreciation	<u>(884931)</u>	<u>(211798)</u>	<u>0</u>	<u>(1096729)</u>
Net Investment in Capital Assets	\$ 7431598	\$ (108070)	\$ 0	\$ 7323528

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Results of Operations:

For the fiscal years ended June 30, 2006 and June 30, 2005, the comparative District-wide results of operations were as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>Revenues</u>		
<i>General Revenues</i>		
Property taxes, levied for general operations	\$ 1625086	\$ 1485101
Property taxes, levied for debt service	491914	473386
Penalties and interest on taxes	10249	6653
Other local taxes	66223	28347
State Aid, Unrestricted	286261	350422
Schools and Roads grant	97489	90720
Interest and Investment Earnings	50550	57376
Other general revenues	<u>89767</u>	<u>102218</u>
<i>Total General Revenues</i>	\$ 2717539	\$ 2594223
 <i>Operating Grants</i>		
Federal	947999	781034
State of Michigan	186408	191044
Other operating grants	<u>725</u>	<u>3850</u>
<i>Total Operating Grants</i>	1135132	975928
 <i>Capital Grants</i>		
Other	125000	65000
 <i>Charges for Services</i>		
Food Service	26880	29663
Athletics	43524	55996
Nimrod Mania	<u>86599</u>	<u>162543</u>
<i>Total Charges for Services</i>	157003	248202
 Total Revenues	\$ 4134674	\$ 3883353

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
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Results of Operations: (Continued)

<u>Expenses</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Instruction	\$ 2082133	\$ 1853239
Support Services	1070385	914070
Food Services	165111	158704
Athletics	91883	101045
Nimrod Mania	60756	103911
Interest on long-term debt	315005	324782
Depreciation (Unallocated)	211798	185382
Other Expenses	<u>502</u>	<u>1464</u>
Total Expenses	3997573	3642597
INCREASE IN NET ASSETS	137101	240756
BEGINNING NET ASSETS	1182816	107312
ADJUST OPENING BALANCE	<u>2667</u>	<u>834748</u>
ENDING NET ASSETS	\$ 1322584	\$ 1182816

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count.
- c. The District's non-homestead levy.

Per Student, Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The **Watersmeet Township School District's** foundation allowance was \$ 8,025 per student for the 2005-2006 school year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

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Student Enrollment

The District's pupil enrollment for state aid membership for the 2005-2006 fiscal year was 253.04. The District's enrollment increased slightly from the prior year's student count. The following summarizes the state aid membership (student enrollments) for the past five years:

	<u>Student FTE</u>
2005-2006	253.04
2004-2005	237.60
2003-2004	224.92
2002-2003	219.45
2001-2002	210.98

2. Property Taxes Levied for General Operations (General Fund Non-Homestead)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase, or five percent, whichever is less.

At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$ 1,625,086. The non-homestead property tax levy increased by approximately 9 percent over the prior year.

The following summarizes the District's non-homestead property tax levy for the past five years:

	<u>Non-Homestead Tax Levy</u>	<u>Percent Increase from Prior Year</u>
2005-2006	\$1,625,086	9.00
2004-2005	1,485,101	13.70
2003-2004	1,306,175	4.00
2002-2003	1,251,879	5.00
2001-2002	1,184,732	11.00

Average increase over last five years: 8.54%

3. Debt Service Fund Levy

The District's debt service fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties - both homestead and non-homestead. For the fiscal year ended June 30, 2006, the District's debt millage levy was 4.1000 mills, which generated revenue of \$ 491,892.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

4. Food Sales to Students and Adults (School Lunch Program)

The District's food sales to students was decreased slightly from the prior school year. Since it had previously been determined that the state school lunch funding (31D) had been overpaid in past fiscal years, a negative adjustment in this funding was made by the State in the amount of \$ 15,317 for the 2005-06 fiscal year. The original amount of overpayment was \$ 76,583. During the 2005-2006 fiscal year, a total of \$ 30,633 had been applied to that overpayment, and at June 30, 2006, the balance due to the State of Michigan was \$ 45,950. This liability is reflected on the Food Service Balance Sheet.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in Required Supplemental Information of these financial statements.

Changes to the General Fund and Food Service original budgets were as follows:

	Revenue Original <u>Budget</u>	Revenue Final <u>Budget</u>	Revenue Final <u>Actual</u>	Revenue Variance Actual vs Original <u>Budget</u>	Revenue Variance Actual vs Final <u>Budget</u>
General Fund	\$ 3039638	\$ 3191607	\$ 3244023	\$ 204385	\$ 52416
Food Service	94710	99582	116120	21410	16538

	Expenditures Original <u>Budget</u>	Expenditures Final <u>Budget</u>	Expenditures Final <u>Actual</u>	Expenditures Variance Actual vs Original <u>Budget</u>	Expenditures Variance Actual vs Final <u>Budget</u>
General Fund	\$ 2851158	\$ 3019774	\$ 3082511	\$ (231353)	\$ (62737)
Food Service	58500	158209	165111	(106611)	(6902)

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

4. Food Sales to Students and Adults (School Lunch Program)

The District's food sales to students was increased slightly from the prior school year. However, during the prior fiscal year, it was determined that the state school lunch funding (31D) had been overpaid in past fiscal years. The amount of overpayment was \$ 76,583. During the 2004-2005 fiscal year, a total of \$ 15,317 had been applied to that overpayment, and at June 30, 2005, the balance due to the State of Michigan was \$61,266. This liability is reflected on the Food Service Balance Sheet.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in Required Supplemental Information of these financial statements.

Changes to the General Fund original budget were as follows:

	<u>Revenue Original Budget</u>	<u>Revenue Final Budget</u>	<u>Revenue Final Actual</u>	<u>Revenue Variance Actual vs Original Budget</u>	<u>Revenue Variance Actual vs Final Budget</u>
General Fund	\$ 2903225	\$ 2933534	\$ 2971418	\$ 68193	\$ 37884
	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual vs Original Budget</u>	<u>Expenditures Variance Actual vs Final Budget</u>
General Fund	\$ 2729709	\$ 2815353	\$ 2828961	\$ (99252)	\$ (13608)

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

General Fund Budgetary Highlights (Continued)

Budgeted revenues were increased by \$ 151,969, an increase of slightly more than 4 percent from the original budget. Actual revenues came in \$ 52,416 more than final budgetary amounts.

Budgeted expenditures were increased by \$ 168,616 from the original budgeted amounts, representing an approximate 5% increase. Actual expenditures exceeded the final appropriated amounts by \$62,737.

Food Service Budgetary Highlights

Budgeted revenues were increased by \$4,872 from the original budget. Actual revenues exceeded both the original and the final amended budgets, coming in at \$116,120.

Budgeted expenditures were increased by \$99,709, as the original Food Service budget had no provision for salaries or benefits. Actual expenditures were \$165,111, which exceeded the final amended budget by \$6,902.

2005-2006 School Year Highlights for Watersmeet High School

Watersmeet Township School District is very proud of it's 2005-2006 accomplishments:

- Incorporating the Reading First Series into our K-3 grades. It was a very special feeling to see the students achievement scores improve throughout the year.
- MEAP Score improvements in almost all areas of the curriculum from grades 3 through 11. Our teachers have been going beyond the "call of duty" realigning the curriculum to meet the needs of our student body to enable them to be successful.
- Having 17 seniors graduate and each going on to further their education...with 16 in college and one in the military.
- Quiz Bowl success at Northern Michigan University. We were able to compete and advance to the 4th round. This included defeating a Class B school, Kingsford, Michigan.
- Another successful Boys Basketball season with a record of 20-3, and making it back to the regional tournament in Houghton.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
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2005-2006 School Year Highlights for Watersmeet High School (Continued)

- It was a great year for scholarships for the Seniors...some from the Michigan State Police, Jilbert's Dairy, and 8 Merit scholarships from the Michigan Department of Education, to name a few.
- Three cheerleading competition trophies were won this past school year, with one cheerleader making the All-Star Squad for the UCA as well as qualifying to go to Philadelphia for the Thanksgiving Day Parade.
- The Bright-Side after school program averaged 85 students each Tuesday and Thursday from 3:10-4:30 pm. High school students and volunteers from the community make this program a success.
- We have established a Bully-Proofing program in all grades K-12, which is a very important topic nation-wide. I believe we are in the fore-front of establishing a Wellness policy to better serve our students while teaching them how to live a healthy lifestyle.
- Surveillance cameras have been installed, assuring even better building security than previous years.
- Parent/Teacher conferences were initiated in two locations: 12:00-3:00 at the LVD Conference Room and 3:00-6:00 at the Watersmeet High School.
- The Sundance Channel filmed an 8-part mini-series between December 1st, 2005 and the end of March, 2006. The main focus will be on the Nimrod Boys Basketball team, as well as the surrounding communities and area. It appears air dates will be in February and March of 2007.

Goals/Events for 2006-2007

- To have another year of achievement in the Reading First series. The series has been moved into the 4th grade this year, making it K-4. We are committed to giving our students the very best to enable ALL of them to be the best they can be!

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Goals/Events for 2006-2007 (Continued)

- Continue to align all areas of our curriculum to assure our students are prepared to be successful on all NCLB mandates and standardized tests, (K-12), and to move on to the next challenge in front of them.
- This school year's theme is: "Failure is not an option". This message was sent to all teachers and staff members. If students are not learning the way we teach, we must teach the way they learn.
- Installation and implementation of the PowerSchool program which will help maintain student, staff and schedule information.
- To expand the teaching staffs knowledge in the field of technology, to better serve our student body. Global learning is becoming a necessity.
- A Native American Instructor has been added to the staff, teaching both language and culture.
- Teaching Bully-Proofing updates to all staff members to ensure a safe school environment for everyone.
- Seeking to hire a Nimrod Marketing firm and Manager to run all facets of the Nimrod Store.

Everyone believes: NO INVESTMENT IN A CHILD IS EVER WASTED!

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Watersmeet Township School District
School Business Office
P.O. Box 217
Watersmeet, Michigan 49969

BASIC FINANCIAL STATEMENTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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STATEMENT OF NET ASSETS

JUNE 30, 2006

Governmental Activities

ASSETS

Current Assets

Cash and Cash Equivalents (Note 3)	\$ 1,172,776
Receivables	
Taxes	12,071
Accounts Receivable	945
Due from Other Governmental Units	96,476
Inventories	<u>27,553</u>
Total Current Assets	\$ 1,309,821

Noncurrent Assets

Capital Assets (Note 5)	8,420,257
Less: Accumulated Depreciation (Note 5)	<u>(1,096,729)</u>
Total Noncurrent Assets	7,323,528

TOTAL ASSETS	\$ 8,633,349
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LIABILITIES

Current Liabilities

Accounts Payable	30,400
Accrued Salaries and Benefits	229,409
Accrued Sales Tax	321
Deferred Revenue	5,540
Due to Other Governmental Units	45,950
Short-term Employee Benefits Payable	29,604
Bonds Payable, Due within one year (Note 8)	<u>246,666</u>
Total Current Liabilities	\$ 587,890

Noncurrent Liabilities

Bonds Payable (Note 8)	6,660,000
Long-term Employee Benefits Payable	<u>62,875</u>
Total Noncurrent Liabilities	6,722,875

TOTAL LIABILITIES	\$ 7,310,765
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	416,862
Reserved for Food Service	20,487
Reserved for Debt Service	131,972
Reserved for Capital Projects	95,977
Reserved for Special Programs	130,179
Reserved for Athletics	4,879
Unreserved, Undesignated	<u>522,228</u>
TOTAL NET ASSETS	<u>\$ 1,322,584</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants	Capital Grants	Net(Expense) Revenue and Changes in Net Assets
Primary Government -					
Government Activities:					
Instruction	\$ 2,082,133		\$ 1,012,286		\$ (1,069,847)
Support Services	1,070,385		33,878	125,000	(911,507)
Food Services	165,111	26,880	88,243		(49,988)
Athletics	91,883	43,524			(48,359)
Nimrod Mania Special Projects	60,756	86,599	725		26,568
Interest on Long-Term Debt	315,005				(315,005)
Depreciation (Unallocated)	211,798				(211,798)
Other Expenses	502				(502)
Total Governmental Activities	\$ 3,997,573	\$ 157,003	\$ 1,135,132	\$ 125,000	\$ (2,580,438)
General Revenues:					
Taxes:					
Property taxes levied for general operations					1,625,086
Property taxes levied for debt service					491,914
Penalties/interest on taxes					10,249
Other local taxes					66,223
State Aid, Unrestricted					286,261
Schools and Roads Grant					97,489
Interest and Investment Earnings					50,550
Other					89,767
Total General Revenues					2,717,539
Change in Net Assets					137,101
Net Assets - Beginning of year before adjustment					1,182,816
Principal adjustment on Energy Conservation Improvement Bonds					2,667
Net Assets - Beginning of year after adjustment					1,185,483
Net Assets - End of year					\$ 1,322,584

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Debt Retirement Building & Site Fund</u>
<u>ASSETS</u>			
Cash and Investments (Note 3)	\$ 800,891	\$ 7,122	\$ 128,226
Receivables:			
Taxes	8,325		3,746
Accounts Receivable			
Due from Other Funds	46,500	54,765	
Due from Other Governmental Units	77,254	1,722	
Inventories	451	2,942	
Total Assets	<u>\$ 933,421</u>	<u>\$ 66,551</u>	<u>\$ 131,972</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	29,000	-	-
Accrued Salaries and Benefits	229,409		
Accrued Sales Tax		114	
Deferred Revenue	5,540		
Due to Other Governmental Units		45,950	
Due to Other Funds	54,765		-
Total Liabilities	318,714	46,064	-
<u>Fund Balances</u>			
Unreserved and undesignated	614,707		-
Reserved for Food Service		20,487	
Reserved for Debt Service			131,972
Reserved for Special Programs			
Reserved for Capital Projects			
Reserved for Athletics			
Total Fund Balances	<u>614,707</u>	<u>20,487</u>	<u>131,972</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 933,421</u>	<u>\$ 66,551</u>	<u>\$ 131,972</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2006

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 236,537	\$ 1,172,776
	12,071
945	945
17,500	118,765
17,500	96,476
24,160	27,553
<u>\$ 296,642</u>	<u>\$ 1,428,586</u>
1,400	30,400
	229,409
207	321
	5,540
	45,950
64,000	118,765
<u>65,607</u>	<u>430,385</u>
	614,707
	20,487
	131,972
130,179	130,179
95,977	95,977
4,879	4,879
<u>231,035</u>	<u>998,201</u>
<u>\$ 296,642</u>	<u>\$ 1,428,586</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
GOVERNMENTAL FUNDS**

JUNE 30, 2006

Total Fund Balances - Governmental Funds	\$ 998,201
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:	8,420,257
Accumulated depreciation is:	(1,096,729)

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Bonds Payable	(6,906,667)
Compensated Absences/Other Benefits	(92,478)

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

-

Total Net Assets - Governmental Activities	<u><u>\$ 1,322,584</u></u>
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The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Food Service Fund</u>
<u>REVENUE</u>		
Local Revenue	\$ 1,814,109	\$ 27,877
State Revenue	421,987	17,445
Federal Revenue	974,690	70,798
Interdistrict and Other Revenue	33,237	-
Miscellaneous	-	-
	<hr/>	<hr/>
TOTAL REVENUE	\$ 3,244,023	\$ 116,120
<u>EXPENDITURES</u>		
Current:		
Instruction	2,033,106	-
Support Services	1,049,405	
Food Services		165,111
Athletics		
Nimrod Mania Special Projects		
Debt Service	-	-
Principal		
Interest and Other		
Capital Outlay		
Other Expenditures	-	-
	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 3,082,511	\$ 165,111
Excess (Deficiency) of Revenues Over Expenditures	161,512	(48,991)
<u>Other Financing Sources (Uses)</u>		
Bond Proceeds	-	-
Bond Issuance Costs		
Unrealized Market Gain (Loss) on Investments		
Operating transfers in		54,699
Operating transfers out	(130,667)	
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(130,667)	54,699
Net Change in Fund Balances	30,845	5,708
FUND BALANCE - BEGINNING OF YEAR	583,862	14,779
	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 614,707	\$ 20,487
	<hr/>	<hr/>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2006

Debt Retirement Building & Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 510,932	\$ 192,458	\$ 2,545,376
-	70,000	509,432
-	-	1,045,488
-	-	33,237
-	-	-
\$ 510,932	\$ 262,458	\$ 4,133,533
-	-	2,033,106
		1,049,405
		165,111
	91,883	91,883
	60,756	60,756
190,000	26,667	216,667
315,005		315,005
	101,048	101,048
	502	502
\$ 505,005	\$ 280,856	\$ 4,033,483
5,927	(18,398)	100,050
-	-	-
	1,141	1,141
	75,968	130,667
		(130,667)
-	77,109	1,141
5,927	58,711	101,191
126,045	172,324	897,010
<u>\$ 131,972</u>	<u>\$ 231,035</u>	<u>\$ 998,201</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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GOVERNMENTAL FUNDS

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 101,191
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense	(211,798)
Capital Outlay	103,728

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

-

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

-

Bond proceeds are reported as financing sources in governmental
funds and thus contribute to the change in fund balance. In the
statement of net assets, however, issuing debt increases long-term
liabilities and does not affect the statement of activities.

-

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

216,667

Increases long-term employee benefits are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

(72,687)

Change in Net Assets of Governmental Activities

\$ 137,101

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

ASSETS

Cash and Cash Equivalents	<u>\$ 64,305</u>
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TOTAL ASSETS	\$ 64,305
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LIABILITIES

Due to Student Groups and Other	<u>24,916</u>
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TOTAL LIABILITIES	\$ 24,916
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NET ASSETS

Reserved for Scholarships	<u>39,389</u>
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TOTAL NET ASSETS	<u>\$ 39,389</u>
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The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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FIDUCIARY FUND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

YEAR ENDED JUNE 30, 2006

	PRIVATE-PURPOSE TRUST FUND
<u>ADDITIONS</u>	
Gifts and Contributions	\$ 500
Investment Earnings	<u>1,663</u>
TOTAL ADDITIONS	\$ 2,163
<u>DEDUCTIONS</u>	
Scholarships Awarded	<u>950</u>
TOTAL DEDUCTIONS	\$ 950
CHANGE IN NET ASSETS	1,213
NET ASSETS - BEGINNING OF YEAR	<u>38,176</u>
NET ASSETS - END OF YEAR	<u>\$ 39,389</u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the **Watersmeet Township School District** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies of the School District:

The Financial Reporting Entity

The Watersmeet Township Board of Education ("Board") is the basic level of government which has financial accountability and control over all activities related to the public school education in the Township of Watersmeet. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Board has not included any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Financial Reporting Entity (Continued)

In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the District's reporting entity.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's district-wide activities are considered governmental activities.

The District generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The District may defer the use of restricted assets based on a review of the specific transaction.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**District-wide and Fund Financial Statements
(Continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation**

District-wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is measurable and available. Revenue is considered to be available if it is collected within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

General Fund

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds.

All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

For district-wide reporting purposes, the General Fund is always a major fund.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Funds to account for its Food Service, Athletic, and Nimrod Mania Funds.

For district-wide reporting purposes, the Food Service Fund is a major fund. The Athletic Fund and Nimrod Mania Fund are both non-major funds.

Debt Retirement Funds

These funds are used to account for the accumulated resources for, and the payment of, general long-term principal, interest, and related costs.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Debt Retirement Funds (Continued)

On the district-wide financial statements, the Debt Service Energy Conservation Improvement Bond Fund is a non-major fund; the Debt Service Building and Site is a major fund.

Capital Projects Funds

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

The District utilized three capital projects funds during the fiscal year ended June 30, 2006. All of the District's capital projects funds are non-major funds for district-wide reporting purposes.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Fiduciary Funds

These funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District presently maintains a Student Activities Fund (Agency Fund) and the Scholarship Fund (Private-Purpose Trust Fund).

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property Taxes

Property taxes are levied on July 01 and payable by September 15 each year. They are declared delinquent on March 01 of the following year. Property taxes are recognized when they become available.

The County of Gogebic purchases all delinquent real property taxes during the second quarter of each year, resulting in total collection of real property taxes each year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Property Taxes (Continued)

Delinquent personal property taxes are recorded as receivable if considered to be collectible within 60 days after year end. For the year ended June 30, the School District levied 18.000 operating mills (non-homestead only), and 4.1 mills for building and site bonded debt on its taxable valuation of \$ 120,078,384.

State Revenue

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and School Code of Michigan.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

State Revenue (Continued)

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts.

The State portion of the foundation is provided primarily by a State education property tax millage of 6.00 mills (on both homestead and non-homestead property) and an allocated portion of the State sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes levied at a rate of up to 18 mills.

The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2005 through August 2006.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

State Revenue (Continued)

The School District also receives revenue from the State to administer certain categorical education programs.

State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

State, general, and categorical aids are recognized as revenue in the entitlement year. Federal aids for reimbursable programs are recognized as revenues in the year related program expenditures are incurred. Aids received prior to meeting revenue recognition criteria are recorded as deferred revenues.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture commodities inventory received by the Food Service Fund is recorded as both revenue and expense in the year received. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the district-wide financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Capital Assets (Continued)

Capital assets are defined by the government as assets with an initial individual cost of more than \$ 1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions.....20 - 50 years

Buses and other vehicles.....5- 10 years

Furniture and Other

Equipment.....5 - 20 years

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities

Employee Compensation and Related Liabilities

Payroll and related withholding and expenses which have been earned by School District employees but not paid as of June 30 are recorded as a liability on the School District's balance sheet.

Unemployment

The School District is a reimbursing employer to the Michigan Employment Security Administration and as such is responsible to pay the Administration for those benefits paid and charged to its account. As of June 30, appropriate liabilities have been recorded for all claims paid by the Administration. However, no provision has been made for future payments that might result from claims in process or un-filed.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave

Sick Leave can accrue for both instructional and non-instructional employees of the School District.

The various employment contracts and agreements covering the School District's personnel allow for the accumulation of earned sick leave as defined. Sick leave accumulates and vests only upon retirement. Employees who leave for any other reason forfeit this benefit. The details of each contract/agreement, as they relate to the accumulation of sick leave benefits, are summarized below:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave (Continued)

Instructional/Administration

Teachers and administrators employed in the District for a minimum of 10 years shall receive, upon retirement, compensation for unused sick leave up to a maximum of 180 days, calculated at .09% of the highest salary x total unused sick days.

Support Staff

Members of the support staff accumulate sick leave at the rate of ½ of a prorated paid leave day for each pay period worked or on paid leave up to a maximum of 160 days.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave (Continued)

Support Staff (Continued)

A minimum of 10 years employment is required to qualify for termination payment, which is calculated at \$1.50 per hour for each regularly scheduled hour per day for up to the maximum total days accumulated.

Vested sick pay is recognized as a liability of the School District along with the associated costs of FICA and retirement.

At June 30, the School District's liability for accumulated sick leave and the related FICA and retirement costs is approximately \$ 23,213.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Non-Monetary Transactions

Federal financial assistance received by school districts may include claims for reimbursement on reimbursable meals and milk served, cash in lieu of commodities, USDA donated commodities (both bonus and entitlement), discounts and rebates for the value of USDA donated commodity ingredients contained in processed foods (end products) provided by the state and federal processing program, respectively, and other payments for administrative costs, etc.

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Non-Monetary Transactions (Continued)

On this basis, the District recognizes the USDA value of donated commodities (bonus and non-bonus) received and expended in the amount of \$ 5,914 for entitlement commodities, and bonus commodities of \$ 1,403.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond costs, during the current period, when applicable.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Long-Term Obligations (Continued)

Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund Equity (Continued)

At June 30, the District had reserved fund balances as follows:

Debt Retirement Fund - Reserved for debt services \$ 131,972.

Capital Projects Fund - Reserved for capital projects \$ 95,977.

Food Services Fund - Reserved for food services \$ 20,487.

Athletic Activity Fund - Reserved for athletics \$ 4,879.

Nimrod Mania Fund - Reserved for special programs \$ 130,179.

Scholarship Fund - Reserved for scholarships \$ 39,389.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

State law requires the District to have its budget in place by July 01. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

**Excess of Expenditures Over Appropriations in
Budgetary Funds**

Budget Violations

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. Contrary to this provision, the total actual 2005-2006 expenditures for the following activities (cost-centers) exceeded the amended budget allocations by a total of \$ 74,080.

<u>ACTIVITY (COST CENTER)</u>	<u>OVER ACTUAL</u>	<u>BUDGET</u>	<u>EXPENDITURES</u>
<u>General Fund</u>			
Elementary	\$ 744699	\$ 725075	\$ 19624
High School	802543	790889	11654
Special Education	199183	199172	11
Reading First Program	113089	112699	390
Guidance	56952	23385	33567
Board of Education	47802	47801	1
<u>Fund Modifications</u>			
Transfer to Capital Projects	734	0	734
<u>Food Service Fund</u>	165111	158209	6902
<u>Athletic Activity Fund</u>	91883	90686	1197

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Fund Deficits

At June 30, 2006, the School District had no fund deficit in any fund.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of the federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

These three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the School District or its agent in the School District's name.

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.

Category 3

Deposits which are not collateralized or insured.

Based on these three levels of risk, the School District's cash deposits are classified as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 2</u>	<u>Totals</u>
Cash and Deposits	\$ 309587	\$ -0-	\$ 927494	\$ 1237081

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 1172776	\$ 64305	\$ 1237081
Investments	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$ <u>1172776</u>	\$ <u>64305</u>	\$ <u>1237081</u>

The breakdown between deposits and investments for the School District is as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (checking and savings accounts, certificates of deposit)	\$ 1237081
Investment in securities, mutual funds, and similar vehicles	0
Petty cash/Cash on hand	<u>0</u>
Total	\$ 1237081

The deposits of the School District were reflected in the accounts of financial institutions at \$ 1,237,081, of which \$309,587 is covered by federal depository insurance.

Investments are categorized into these categories of credit risk:

Category 1 - Insured or registered, or securities held by the School District or its agent in the School District's name.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the School District's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the School District's name.

At June 30, 2006, the School District's investment balances were categorized as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Non-major and Other Funds</u>	<u>Total</u>
Receivables:			
Taxes	\$ 8325	\$ 3746	\$ 12071
Intergovernmental	77254	19222	96476
Other	<u>0</u>	<u>945</u>	<u>945</u>
Total Receivables	\$ <u>85579</u>	\$ <u>23913</u>	\$ <u>109492</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 4 – RECEIVABLES (CONTINUED)

Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant and categorical aid payment not considered available	\$ 0	\$ 0
Payments received prior to meeting all eligibility requirements:	<u>0</u>	<u>0</u>
Total	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	<u>Adjusted Balance July 01 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30 2006</u>
Assets not being depreciated				
Land	\$ 42000	\$ 0	\$ -0-	\$ 42000
Capital assets being depreciated				
Land Improvements	220821	0	-0-	220821
Building and building improvements	7491834	1067	-0-	7492901
Machinery, Furniture and equipment	<u>561874</u>	<u>102661</u>	<u>-0-</u>	<u>664535</u>
Subtotal	\$ 8274529	\$ 103728	\$ -0-	\$ 8378257
Accumulated Depreciation:				
Land Improvements	37508	10122	-0-	47630
Building and building Improvements	\$ 537871	\$ 147534	\$ -0-	\$ 685405

(Continued on page 68)

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 5 – CAPITAL ASSETS (CONTINUED)

(Continued from previous page)

	<u>Adjusted Balance July 01, 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2006</u>
Accumulated Depreciation (Continued)				
Machinery, Furniture and equipment	\$ <u>309552</u>	\$ <u>54142</u>	\$ <u>-0-</u>	\$ <u>363694</u>
Subtotal	<u>884931</u>	<u>211798</u>	<u>-0-</u>	<u>1096729</u>
Net capital assets being depreciated	<u>7389598</u>	<u>(108070)</u>	<u>-0-</u>	<u>7281528</u>
Net capital assets	\$ <u>7431598</u>	\$ <u>(108070)</u>	\$ <u>-0-</u>	\$ <u>7323528</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of inter-fund balances is as follows:

Do To/From Other Funds:

The amounts of inter-fund receivables and payables as of June 30, 2006 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$ 46500	\$ 54765
Food Service	54765	0
Capital Projects Fund – Boundless Playground	0	17500
Capital Projects Fund – Building and Site	17500	17500
Capital Projects Fund – LVD Projects	<u>0</u>	<u>29000</u>
Totals	\$ <u>118765</u>	\$ <u>118765</u>

The General Fund transfers monies to support the food service activities each year. The above amount will clear after year-end.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Operating Transfers

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the fiscal year ended June 30, 2006, the District authorized the following transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 130667
Athletic Fund	48467	0
Food Service Fund	54699	0
Debt Retirement Fund – Energy Conservation Improvement Bonds	26767	0
Capital Projects Fund – Building and Site	<u>734</u>	<u>0</u>
Totals	\$ <u>130667</u>	\$ <u>130667</u>

Each year the General Fund transfers funds to the Food Service and Athletic Funds to support their programs, as they are not self-sustaining.

The General Fund also transfers funds to cover the cost of debt payments not provided for with debt service millage.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Other Financing Sources (Uses)

The transfers of cash between various District funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE 7 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2006, the District's General Fund has deferred revenue of \$ 5,540.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 8 – LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk obligations.

Long-term obligation activity can be summarized as follows:

	Adjusted Balance July 01, 2005	Additions	Deletions	Balance June 30, 2006
Long-Term Employee Benefits Payable	\$ 88688	\$ 28012	\$ 24221	\$ 92479
2002 Building and Site Bonds	6750000	-0-	190000	6560000
2003 Energy Conservation Improvement Bonds	<u>373333</u>	<u>-0-</u>	<u>26667</u>	<u>346666</u>
Totals	\$ <u>7212021</u>	\$ <u>28012</u>	\$ <u>240888</u>	\$ <u>6999145</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 8 – LONG-TERM DEBT (CONTINUED)

**2003 Energy Conservation Improvement Bond
(General Obligation-Limited Tax)**

On December 19, 2003, the **Watersmeet Township School District** issued a Qualified Zone Academy Bond to borrow the sum of \$ 400,000 for the purpose of acquiring and constructing energy conservation improvements to the Watersmeet School. The interest rate is (0%). The principal amount of \$ 400,000 matures on December 19, 2018. The School District is required to set aside principal installments of \$ 26,666.67 on December 19 of each year starting in 2004, and continuing until the maturity date.

**2002 School Building and Site Bonds
(General Obligation Unlimited Tax)**

On March 25, 2002, the **Watersmeet Township School District** issued bonds to borrow the sum of \$7,040,000 for the purpose of erecting, furnishing, and equipping an addition to and partially remodeling, refurnishing, and re-equipping the Watersmeet School; acquiring and installing educational technology; constructing and equipping a playground; and acquiring land and developing and improving the site.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 8 – LONG-TERM DEBT (CONTINUED)

**2002 School Building and Site Bonds
(General Obligation Unlimited Tax)
(Continued)**

Interest is payable semi-annually on May 01 and November 01 of each year. Principal is payable on the first day of May.

<u>SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS</u>					
	<u>May 01</u>		<u>November 01</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rate</u>
2006	\$	\$	\$ 153008	\$ 153008	4.600%
2007	220000	153008	147948	520956	4.600%
2008	235000	147948	142543	525491	4.600%
2009	250000	142543	136793	529336	4.600%
2010	265000	136793	130698	532491	4.600%
2011	280000	130698	124222	534920	4.625%
2012	295000	124222	117401	536623	4.625%
2013-2017	1640000	512541	474616	2627157	4.625%
2018-2022	1675000	319909	281175	2276084	4.625%
2023-2027	<u>1700000</u>	<u>125108</u>	<u>84366</u>	<u>1909474</u>	5.000%
Total	\$ 6560000	\$ 1792770	\$ 1792770	\$ 10145540	

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Long-Term Employee Benefits

Accrued Long-Term Sick Leave

On June 30, 2006, the District's estimated liability for long-term sick leave, plus the related costs of FICA, Medicare, and retirement was \$ 20,892.

Retirement Incentive

At June 30, 2006, the District's liability for Retirement Incentive payable, including related costs of FICA and Medicare was \$ 71,587.25, and payable as follows:

2006-07	\$ 29,603.75
2207-08	15,609.25
2008-09	15,609.25
2009-10	5,382.50
2010-11	<u>5,382.50</u>
Total	\$ 71,587.25

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries(workers' compensation), as well as medical benefits provided to employees. The School District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the School District. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

The School District contributes to the Michigan Public School Employees' Retirement system (MPERS), a cost-sharing multiple-employer defined benefit pension administered by the Michigan Department of Management and Budget, Office of Retirement Systems.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

MPSERS provides retirement, survivor and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended.

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information.

The annual report may be obtained by calling (517) 322-5103 or by writing to:

<p>Department of Management and Budget Office of Retirement Systems P.O. Box 30673 Lansing, Michigan 48909-8103</p>
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WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN (CONTINUED)

The School District is required by state statute to contribute 14.87% of covered payroll from July 01 through September 30, 2005 and 16.34% from October 01, 2005 through June 30, 2006. Contributions to MPSERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members including the School District are established and may be amended only by state statute.

The School District's contributions to MPSERS for the year ending June 30, 2006, 2005, and 2004, were \$259,273, \$225,622, and \$187,834, respectively.

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN (CONTINUED)

Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. Contributions collected and remitted by the School District on behalf of MIP members for the years ending June 30, 2006, 2005, and 2004 were \$ 56,011, \$ 52,203, and \$49,480 respectively, equal to the required contributions for the year.

NOTE 11 - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits, MPSERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 12 - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business.

However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2006, there were no subsequent events that would have a significant affect on the District's operations.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at June 30, 2006 may be impaired.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

REQUIRED SUPPLEMENTAL INFORMATION

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
Local Sources	\$ 1,748,758	\$ 1,761,197	\$ 1,814,109
State Sources	500,000	422,133	421,987
Federal Sources	790,880	974,690	974,690
Interdistrict and Other Sources	<u>-</u>	<u>33,587</u>	<u>33,237</u>
TOTAL REVENUE	\$ 3,039,638	\$ 3,191,607	\$ 3,244,023
<u>EXPENDITURES - CURRENT</u>			
Instruction :			
Basic Programs	1,509,590	1,515,964	1,547,242
Added Needs	333,648	485,464	485,864
Supporting Services :			
Pupil	106,050	56,368	89,935
Instructional Staff	49,875	51,238	51,238
General Administration	224,995	249,753	249,753
School Administration	111,480	113,374	113,373
Business Services	4,000	12,680	12,680
Computer Services	35,975	34,323	34,322
Operation and Maintenance	336,220	341,216	338,711
Transportation	139,325	159,394	159,393
Other Supporting Services	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	\$ 2,851,158	\$ 3,019,774	\$ 3,082,511
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In			-
Operating Transfers Out	184,060	129,933	130,667
NET CHANGE IN FUND BALANCE	4,420	41,900	30,845
FUND BALANCE - BEGINNING OF YEAR	<u>583,862</u>	<u>583,862</u>	<u>583,862</u>
FUND BALANCE - END OF YEAR	<u>\$ 588,282</u>	<u>\$ 625,762</u>	<u>\$ 614,707</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE – FOOD SERVICE

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
Local Sources	\$ 29,710	\$ 27,955	\$ 27,877
State Sources	10,000	8,146	17,445
Federal Sources	55,000	63,481	70,798
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	\$ 94,710	\$ 99,582	\$ 116,120
 <u>EXPENDITURES - CURRENT</u>			
Nonprofessional Salaries	-	57,555	57,557
Insurance	-	21,821	26,821
FICA/Retirement	-	15,165	15,165
Purchased Services	2,590	3,671	3,671
Supplies and Materials	54,900	54,477	61,493
Capital Outlay	-	-	-
Other	1,010	520	404
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 58,500	\$ 158,209	\$ 165,111
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In		54,699	54,699
Operating Transfers Out	35,000		-
 NET CHANGE IN FUND BALANCE	1,210	(3,928)	5,708
 FUND BALANCE - BEGINNING OF YEAR	14,779	14,779	14,779
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 15,989	\$ 10,851	\$ 20,487
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>Athletic Fund</u>	<u>Nimrod Mania Fund</u>	<u>Debt Service Energy Conservation Improvement Bonds</u>
<u>ASSETS</u>			
Cash and Investments (Note 3)	\$ 4,879	\$ 106,226	\$ -
Accounts Receivable			
Grants Receivable			
Inventory		24,160	
Due from Other Funds	-		-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 4,879</u>	<u>\$ 130,386</u>	<u>\$ -</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	-	-	-
Accrued Sales Tax		207	-
Due to Other Funds			-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	-	207	-
 <u>Fund Balances</u>			
Reserved for Food Service	4,879	-	-
Reserved for Athletics			
Reserved for Debt Service			
Reserved for Capital Projects			
Reserved for Special Programs		130,179	
Unreserved and Undesignated	-		-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	4,879	130,179	-
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,879</u>	<u>\$ 130,386</u>	<u>\$ -</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

<u>Capital Projects Boundless Playground</u>	<u>Capital Projects Building and Site</u>	<u>Capital Projects LVD Projects</u>	<u>Total</u>
\$ -	\$ -	\$ 125,432	\$ 236,537
		945	945
17,500			17,500
	17,500		24,160
			17,500
<u><u>\$ 17,500</u></u>	<u><u>\$ 17,500</u></u>	<u><u>\$ 126,377</u></u>	<u><u>\$ 296,642</u></u>
-	-	1,400	1,400
-		-	207
<u>17,500</u>	<u>17,500</u>	<u>29,000</u>	<u>64,000</u>
17,500	17,500	30,400	65,607
-	-	-	4,879
			-
			-
		95,977	95,977
			130,179
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	95,977	231,035
<u><u>\$ 17,500</u></u>	<u><u>\$ 17,500</u></u>	<u><u>\$ 126,377</u></u>	<u><u>\$ 296,642</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2006

	<u>Athletic Fund</u>	<u>Nimrod Mania Fund</u>	<u>Debt Service Energy Conservation Improvement Bonds</u>
<u>Revenue</u>			
Local Revenue	\$ 43,524	\$ 91,722	\$ -
State Revenue			
Federal Revenue			
Interdistrict and Other Revenue			
Miscellaneous			
Total Revenue	\$ 43,524	\$ 91,722	\$ -
<u>Expenditures</u>			
Current:			
Food Service	-	-	-
Athletics	91,883		
Retail Sales			
Debt Service			
Principal			26,667
Interest and Fees			
Other			100
Special Projects		60,756	
Capital Outlay	-		-
Total Expenditures	\$ 91,883	\$ 60,756	\$ 26,767
Excess (Deficiency) of Revenues Over Expenditures	(48,359)	30,966	(26,767)
<u>Other Financing Sources (Uses)</u>			
Unrealized gains (losses)			
Operating transfers in	48,467		26,767
Operating transfers out	-		-
Total Other Financing Sources (Uses)	48,467	-	26,767
Net Change in Fund Balances	108	30,966	-
FUND BALANCE - BEGINNING OF YEAR	4,771	99,213	-
FUND BALANCE - END OF YEAR	\$ 4,879	\$ 130,179	\$ -

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2006

Capital Projects Boundless Playground	Capital Projects Building and Site Fund	Capital Projects LVD Projects	Total
\$ 26 70,000	\$ 1,518	\$ 55,668	\$ 192,458 70,000
			-
			-
-			-
-			-
\$ 70,026	\$ 1,518	\$ 55,668	\$ 262,458
-		-	-
			91,883
			-
			-
			26,667
			-
402			502
			60,756
72,882	3,393	24,773	101,048
\$ 73,284	\$ 3,393	\$ 24,773	\$ 280,856
(3,258)	(1,875)	30,895	(18,398)
-	1,141	-	1,141
	734		75,968
-			-
-	1,875	-	77,109
(3,258)	-	30,895	58,711
3,258	-	65,082	172,324
\$ -	\$ -	\$ 95,977	\$ 231,035

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS

JUNE 30, 2006

<u>ASSETS</u>	<u>FOOD SERVICES FUND</u>	<u>ATHLETIC ACTIVITY FUND</u>	<u>NIMROD MANIA FUND</u>	<u>TOTAL</u>
Cash and Deposits	\$ 7,122	\$ 4,879	\$106,226	\$118,227
Accounts Receivable - State	1,722	-	-	1,722
Inventory	2,942	-	24,160	27,102
Due From Other Funds	54,765	-	-	54,765
TOTAL ASSETS	<u>\$ 66,551</u>	<u>\$ 4,879</u>	<u>\$130,386</u>	<u>\$201,816</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accrued Sales Tax	114	-	207	321
Due to State of Michigan	45,950	-	-	45,950
TOTAL LIABILITIES	\$ 46,064	\$ -	\$ 207	\$ 46,271
<u>FUND EQUITY</u>				
Fund Balance - Reserved	20,487	4,879	130,179	155,545
TOTAL FUND EQUITY	20,487	4,879	130,179	155,545
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 66,551</u>	<u>\$ 4,879</u>	<u>\$130,386</u>	<u>\$201,816</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL SPECIAL REVENUE FUNDS - COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006

	FOOD SERVICES FUND	ATHLETIC ACTIVITY FUND	NIMROD MANIA FUND	TOTAL
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Food Sales	\$ 26,880	\$ -	\$ -	\$ 26,880
Admissions and Other	-	43,524	89,518	133,042
Interest	997	-	2,204	3,201
STATE SOURCES				
Restricted Grants	17,445	-	-	17,445
FEDERAL SOURCES				
Restricted Grants - Received Through the State	70,798	-	-	70,798
TOTAL REVENUES	\$ 116,120	\$ 43,524	\$ 91,722	\$251,366
<u>OTHER FINANCING SOURCES</u>				
<u>FUND MODIFICATIONS :</u>				
Transfer From General Fund	54,699	48,467	-	103,166
TOTAL REVENUES AND OTHER FINANCING SOURCES	170,819	91,991	91,722	354,532
<u>EXPENDITURES</u>				
Professional Salaries	-	28,970	-	28,970
Nonprofessional Salaries	57,557	6,780	7,276	64,337
Insurance	26,821	-	-	26,821
FICA/Retirement	15,165	6,891	1,717	22,056
Purchased Services	3,671	-	3,887	3,671
Supplies and Materials	61,493	7,509	23,398	69,002
Capital Outlay	-	-	-	-
Other	404	41,733	4,816	46,953
Program Support	-	-	19,662	19,662
TOTAL EXPENDITURES	\$ 165,111	\$ 91,883	\$ 60,756	\$317,750
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	5,708	108	30,966	36,782
FUND BALANCE, JULY 1	14,779	4,771	99,213	118,763
FUND BALANCE, JUNE 30	\$ 20,487	\$ 4,879	\$ 130,179	\$155,545

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

ALL DEBT RETIRMENT FUNDS - COMBINING BALANCE SHEET

JUNE 30, 2006

	BUILDING AND SITE FUND	ENERGY CONSERVATION IMPROVEMENT BONDS FUND	TOTAL
<u>ASSETS</u>			
Cash and Deposits	\$ 128,226	\$ -	\$ 128,226
Delinquent Taxes Receivable	3,746	-	3,746
TOTAL ASSETS	<u>\$ 131,972</u>	<u>\$ -</u>	<u>\$ 131,972</u>
 <u>FUND EQUITY</u>			
Fund Balance, Reserved	131,972	-	131,972
TOTAL FUND EQUITY	<u>\$ 131,972</u>	<u>\$ -</u>	<u>\$ 131,972</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL DEBT RETIRMENT FUNDS - COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006

	BUILDING AND SITE FUND	ENERGY CONSERVATION IMPROVEMENT BONDS FUND	TOTAL
<u>REVENUES</u>			
Property Taxes	\$ 491,914	\$ -	\$ 491,914
Interest & Penalties on Taxes	3,602	-	3,602
Other Taxes	7,352	-	7,352
Interest on Investments	8,064	-	8,064
TOTAL REVENUES	\$ 510,932	\$ -	\$ 510,932
<u>EXPENDITURES</u>			
Principal	190,000	26,667	216,667
Interest	314,755		314,755
Other	250	100	350
TOTAL EXPENDITURES	\$ 505,005	\$ 26,767	\$ 531,772
Excess of Revenues Over (Under) Expenditures	5,927	(26,767)	(20,840)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transer In - General Fund	-	26,767	26,767
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ 26,767	\$ 26,767
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	5,927	-	5,927
FUND BALANCE, JULY 1	126,045	-	126,045
FUND BALANCE, JUNE 30	\$ 131,972	\$ -	\$ 131,972

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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ALL CAPITAL PROJECTS FUNDS - COMBINING BALANCE SHEET

JUNE 30, 2006

	BUILDING AND SITE FUND	BOUNDLESS PLAYGROUND FUND	LVD PROJECTS FUND	TOTAL
<u>ASSETS</u>				
Cash and Deposits	\$ -	\$ -	\$ 125,432	\$ 125,432
Accounts Receivable	-	-	945	945
Grants Receivable	-	17,500	-	17,500
Due From Other Funds	17,500		-	17,500
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 17,500</u>	<u>\$ 126,377</u>	<u>\$ 161,377</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accounts Payable	-	-	1,400	1,400
Due To Other Funds	17,500	17,500	29,000	64,000
TOTAL LIABILITIES	17,500	17,500	30,400	65,400
<u>FUND EQUITY</u>				
Fund Balance, Reserved	-	-	95,977	95,977
TOTAL FUND EQUITY	-	-	95,977	95,977
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 17,500</u>	<u>\$ 17,500</u>	<u>\$ 126,377</u>	<u>\$ 161,377</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL CAPITAL PROJECTS FUNDS - COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006

	BUILDING AND SITE FUND	BOUNDLESS PLAYGROUND FUND	LVD PROJECTS FUND	TOTAL
<u>REVENUES</u>				
Grant Income	\$ -	\$ 70,000	\$ 55,000	\$ 125,000
Interest	1,518	26	668	2,212
Miscellaneous	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	\$ 1,518	\$ 70,026	\$ 55,668	\$ 127,212
<u>EXPENDITURES</u>				
Capital Outlay	3,393	72,882	24,773	101,048
Miscellaneous	-	402	-	402
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 3,393	\$ 73,284	\$ 24,773	\$ 101,450
Excess of Revenues Over (Under) Expenditures	(1,875)	(3,258)	30,895	25,762
<u>OTHER FINANCING SOURCES (USES)</u>				
Unrealized Gains (Losses)	1,141	-	-	1,141
Transfer In - General Fund	734	-	-	734
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 1,875	\$ -	\$ -	\$ 1,875
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	(3,258)	30,895	27,637
FUND BALANCE, JULY 1	<hr/> -	<hr/> 3,258	<hr/> 65,082	<hr/> 68,340
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 95,977</u></u>	<u><u>\$ 95,977</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

GENERAL FUND - COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 800,891	\$ 750,340
Taxes Receivable	8,325	15,522
Accounts Receivable :		
Federal	-	-
State	77,254	89,867
Other	-	635
Inventory	451	466
Due From Other Funds	<u>46,500</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 933,421</u>	<u>\$ 856,830</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Benefits	82,350	75,689
Accounts Payable	29,000	2,530
Salaries Payable	147,059	133,349
Deferred Revenue	5,540	-
Due To Other Funds	<u>54,765</u>	<u>61,400</u>
TOTAL LIABILITIES	318,714	272,968
 <u>FUND EQUITY</u>		
Fund Balance, Unreserved & Undesignated	<u>614,707</u>	<u>583,862</u>
TOTAL FUND EQUITY	614,707	583,862
 TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 933,421</u>	<u>\$ 856,830</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

GENERAL FUND - SUPPLEMENTAL SCHEDULE OF REVENUES – ACTUAL COMPARED TO BUDGET

FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Current Tax Levy	\$ 1,625,086	\$ 1,626,252	\$ (1,166)	\$1,485,101
Other Taxes/PILT/CFR	58,871	67,366	(8,495)	24,600
Penalties and Interest on Taxes	6,647	4,503	2,144	5,343
Interest Income	35,932	34,850	1,082	25,279
Other Local Revenue	87,573	28,226	59,347	102,034
 TOTAL REVENUES FROM LOCAL SOURCES	 1,814,109	 1,761,197	 52,912	 1,642,357
 <u>STATE SOURCES</u>				
State School Aid	286,261	288,898	(2,637)	350,422
Special Education	66,765	64,229	2,536	66,631
At Risk	68,961	69,006	(45)	75,068
Driver Education	-	-	-	1,531
RICC	-	-	-	5,300
Grow Grant	-	-	-	9,565
 TOTAL REVENUES FROM STATE SOURCES	 421,987	 422,133	 (146)	 508,517
 <u>FEDERAL SOURCES</u>				
Public Law 81-874				
School Assistance	682,924	682,924	-	622,703
Title I	47,022	47,022	-	51,383
Title II A	11,228	11,228	-	11,622
Title II D	877	877	-	1,306
Title V	1,793	1,793	-	2,676
Title VI REAP	20,857	20,857	-	20,356
Reading First Grant	112,500	112,500	-	-
Schools and Roads Grant	97,489	97,489	-	90,720
 TOTAL REVENUES FROM FEDERAL SOURCES	 974,690	 974,690	 -	 800,766
 TOTAL REVENUES	 \$ 3,210,786	 \$ 3,158,020	 \$ 52,766	 \$2,951,640

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF REVENUES – ACTUAL COMPARED TO
BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
OTHER FINANCING SOURCES				
Payments From Other Governmental Units :				
Federal Sources	\$ -	\$ -	\$ -	\$ -
State Sources	33,237	33,587	(350)	15,928
Other Sources	-	-	-	3,850
TOTAL OTHER FINANCING SOURCES	33,237	33,587	(350)	19,778
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 \$ 3,244,023	 \$ 3,191,607	 \$ 52,416	 \$2,971,418

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED TO BUDGET

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

<u>INSTRUCTION</u>	<u>FISCAL YEAR ENDED JUNE 30, 2006</u>			<u>FISCAL YEAR ENDED 06/30/05</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	
BASIC PROGRAMS				
<u>Elementary</u>				
Professional Salaries	\$ 368,890	\$ -	\$ -	\$ 407,964
Nonprofessional Salaries	18,772			17,360
Insurance	149,717			130,799
FICA/Retirement	121,367			91,068
Other Benefits	458			1,603
Purchased Services	29,558			9,406
Supplies and Materials	55,165			41,721
Capital Outlay	-			11,999
Other	772	-	-	8,159
Total Elementary	744,699	725,075	(19,624)	720,079
<u>High School</u>				
Professional Salaries	\$ 493,029	\$ -	\$ -	\$ 499,416
Insurance	128,142			113,336
FICA/Retirement	125,501			110,150
Other Benefits	469			1,925
Purchased Services	20,906			5,242
Supplies and Materials	33,161			34,680
Capital Outlay	-			1,296
Other	1,335	-	-	8,248
Total High School	802,543	790,889	(11,654)	774,293
TOTAL BASIC PROGRAMS	\$ 1,547,242	\$ 1,515,964	\$ (31,278)	\$1,494,372
ADDED NEEDS				
<u>Special Education</u>				
Professional Salaries	\$ 92,364	\$ -	\$ -	\$ 95,084
Nonprofessional Salaries	28,645			27,408
Insurance	44,284			42,741
FICA/Retirement	29,014			27,401
Other Benefits	148			462
Purchased Services	129			136
Supplies and Materials	4,240			6,165
Capital Outlay	-			-
Other	359	-	-	608
Total Special Education	\$ 199,183	\$ 199,172	\$ (11)	\$ 200,005

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 06/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>INSTRUCTION (Continued)</u>				
<u>Added Needs (Continued)</u>				
<u>At Risk Program</u>				
Professional Salaries	\$ 63,975	\$ -	\$ -	\$ 65,866
Insurance	18,731			21,800
FICA/Retirement	15,313			15,325
Total At Risk Program	98,019	98,019	-	102,991
<u>Compensatory Education</u>				
<u>Title I</u>				
Professional Salaries	\$ 30,257	\$ -	\$ -	\$ 30,548
Nonprofessional Salaries	10,315			-
Insurance	11,691			8,188
FICA/Retirement	10,463			6,878
Purchased Services	735			735
Supplies and Materials	8,167			14,876
Other	3,945	-	-	4,455
Total Compensatory Education	75,573	75,574	1	65,680
<u>Reading First Program</u>				
Professional Salaries	\$ 56,060	\$ -	\$ -	\$ -
Insurance	11,431			-
FICA/Retirement	10,845			-
Purchased Services	400			-
Supplies and Materials	27,767			-
Other	6,586	-	-	-
Total Reading First Program	113,089	112,699	(390)	-
TOTAL ADDED NEEDS	485,864	485,464	(400)	368,676
TOTAL INSTRUCTION	\$ 2,033,106	\$ 2,001,428	\$ (31,678)	\$1,863,048

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**GENERAL FUND -SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 06/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>SUPPORTING SERVICES</u>				
<u>STUDENT SERVICES</u>				
<u>Guidance</u>				
Professional Salaries	\$ 38,078	\$ -	\$ -	\$ 36,615
Insurance	8,319			8,564
FICA/Retirement	9,838			8,782
Purchased Services	470			492
Supplies and Materials	210			-
Other	37	-	-	-
Total Guidance	\$ 56,952	\$ 23,385	\$ (33,567)	\$ 54,453
<u>Health</u>				
Professional Salaries	\$ 17,406	\$ -	\$ -	\$ 18,110
Insurance	9,733			9,762
FICA/Retirement	3,755			3,812
Purchased Services	492			420
Supplies and Materials	357			497
Other	1,240	-	-	484
Total Health	32,983	32,983	-	33,085
TOTAL STUDENT SERVICES	\$ 89,935	\$ 56,368	\$ (33,567)	\$ 87,538
<u>INSTRUCTIONAL STAFF</u>				
<u>Library</u>				
Professional Salaries	\$ 11,042	\$ -	\$ -	\$ 12,243
Nonprofessional Salaries	16,480			14,527
Insurance	10,091			8,756
FICA/Retirement	6,631			5,997
Other Benefits	347			-
Purchased Services	5,324			2,179
Supplies and Materials	1,323			4,007
Other	-	-	-	107
Total Library	51,238	51,238	-	47,816
TOTAL INSTRUCTIONAL STAFF	\$ 51,238	\$ 51,238	\$ -	\$ 47,816

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

SUPPORTING SERVICES (Continued)	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 06/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
GENERAL ADMINISTRATION				
<u>Board of Education</u>				
Nonprofessional Salaries	\$ 2,910	\$ -	\$ -	\$ 3,450
Insurance	1,578			1,373
Purchased Services	39,557			38,156
Other	3,757	-	-	5,644
Total Board of Education	\$ 47,802	\$ 47,801	\$ (1)	\$ 48,623
<u>Executive Administration</u>				
Professional Salaries	\$ 40,653	\$ -	\$ -	\$ 19,735
Nonprofessional Salaries	85,578			86,294
Insurance	24,125			21,187
FICA/Retirement	31,192			22,904
Other Benefits	4,010			910
Purchased Services	3,972			2,790
Supplies and Materials	4,233			2,279
Capital Outlay	-			8,194
Other	8,188	-	-	8,836
Total Executive Administration	201,951	201,952	1	173,129
 TOTAL GENERAL ADMINISTRATION	 \$ 249,753	 \$ 249,753	 \$ -	 \$ 221,752
SCHOOL ADMINISTRATION				
<u>Office of the Principal</u>				
Professional Salaries	\$ 40,652	\$ -	\$ -	\$ 20,634
Nonprofessional Salaries	30,486			29,800
Insurance	13,989			14,025
FICA/Retirement	17,547			11,064
Other Benefits	1,459			910
Purchased Services	3,008			1,854
Supplies and Materials	2,978			1,051
Capital Outlay	-			4,500
Other	3,254	-	-	2,838
Total Office of the Principal	113,373	113,374	1	86,676
 TOTAL SCHOOL ADMINISTRATION	 \$ 113,373	 \$ 113,374	 \$ 1	 \$ 86,676

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 06/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>SUPPORTING SERVICES (Continued)</u>				
BUSINESS SERVICES				
<u>Fiscal Services</u>				
Tax Judgements/Chargebacks	\$ 12,680	\$ 12,680	\$ -	\$ 1,782
TOTAL BUSINESS SERVICES	\$ 12,680	\$ 12,680	\$ -	\$ 1,782
 COMPUTER SERVICES				
Professional Salaries	\$ 3,948	\$ -	\$ -	\$ 7,666
FICA/Retirement	941			1,713
Purchased Services	11,271			5,000
Supplies and Materials	18,162			17,692
Capital Outlay	-	-	-	4,250
TOTAL COMPUTER SERVICES	34,322	34,323	1	36,321
 OPERATION AND MAINTENANCE				
Nonprofessional Salaries	\$ 100,720	\$ -	\$ -	\$ 97,835
Insurance	49,830			51,764
FICA/Retirement	23,864			21,627
Other Benefits	1,512			369
Purchased Services	143,930			138,944
Supplies and Materials	12,494			14,036
Capital Outlay	2,679			35,956
Other	3,682	-	-	3,670
TOTAL OPERATION AND MAINTENANCE	\$ 338,711	\$ 341,216	\$ 2,505	\$ 364,201
 PUPIL TRANSPORTATION				
Purchased Services	159,393	-	-	119,827
TOTAL PUPIL TRANSPORTATION	159,393	159,394	1	119,827
 TOTAL SUPPORTING SERVICES	\$ 1,049,405	\$ 1,018,346	\$ (31,059)	\$ 965,913
 TOTAL EXPENDITURES	\$ 3,082,511	\$ 3,019,774	\$ (62,737)	\$2,828,961

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 06/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>OTHER FINANCING USES</u>				
<u>Fund Modifications</u>				
Transfer To Food Service Fund	\$ 54,699	\$ 54,699	\$ -	\$ 53,245
Transfer To Athletic Fund	48,467	48,467	-	48,684
Transfer To Debt Retirement Fund	26,767	26,767	-	26,767
Transfer To Capital Projects Fund	734	-	(734)	-
Total Fund Modifications	130,667	129,933	(734)	128,696
 TOTAL OTHER FINANCING USES	 \$ 130,667	 \$ 129,933	 \$ (734)	 \$ 128,696
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 \$ 3,213,178	 \$ 3,149,707	 \$ (63,471)	 \$2,957,657

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SPECIAL REVENUE FUND – FOOD SERVICE FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 7,122	\$ 10,899
Accounts Receivable - State	1,722	1,104
Inventory	2,942	2,642
Due From Other Funds	<u>54,765</u>	<u>61,400</u>
TOTAL ASSETS	<u>\$ 66,551</u>	<u>\$ 76,045</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Sales Tax	114	-
Due to State of Michigan	<u>45,950</u>	<u>61,266</u>
TOTAL LIABILITIES	46,064	61,266
<u>FUND EQUITY</u>		
Fund Balance - Reserved	<u>20,487</u>	<u>14,779</u>
TOTAL FUND EQUITY	20,487	14,779
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 66,551</u>	<u>\$ 76,045</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**SPECIAL REVENUE FUND – FOOD SERVICE - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Student Breakfast / Lunches	\$ 22,696	\$ -	\$ -	\$ 23,110
Adult Lunches	3,532			4,550
Interest	997			915
Other	652			2,003
TOTAL LOCAL SOURCES	27,877	27,955	(78)	30,578
<u>STATE SOURCES</u>				
School Lunch Program	17,445	8,146	9,299	17,021
<u>FEDERAL SOURCES</u>				
Federal Aid	63,481			60,682
USDA Commodities/Bonus	7,317			10,306
TOTAL FEDERAL SOURCES	70,798	63,481	7,317	70,988
TOTAL REVENUES	116,120	99,582	16,538	118,587
<u>OTHER FINANCING SOURCES</u>				
<u>FUND MODIFICATIONS :</u>				
Transfer From General Fund	54,699	54,699	-	53,245
TOTAL REVENUES AND OTHER FINANCING SOURCES	170,819	154,281	16,538	171,832
<u>EXPENDITURES</u>				
Nonprofessional Salaries	57,557			56,444
Insurance	26,821			24,558
FICA/Retirement	15,165			12,243
Purchased Services	3,671			1,887
Supplies and Materials	61,493			62,688
Capital Outlay	-			-
Other	404			884
TOTAL EXPENDITURES	165,111	158,209	(6,902)	158,704
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	5,708	(3,928)	9,636	13,128
FUND BALANCE, JULY 1	14,779			1,651
FUND BALANCE, JUNE 30	\$ 20,487			\$ 14,779

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND – COMPARATIVE
BALANCE SHEET**

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	<u>\$ 4,879</u>	<u>\$ 4,771</u>
TOTAL ASSETS	<u>\$ 4,879</u>	<u>\$ 4,771</u>
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>4,879</u>	<u>4,771</u>
TOTAL FUND EQUITY	<u>\$ 4,879</u>	<u>\$ 4,771</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 06/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
LOCAL SOURCES				
Admissions	\$ 15,468	\$ -	\$ -	\$ 22,565
Fund Raising	27,443			22,999
Donations	-			-
Other Revenue	613			10,432
TOTAL LOCAL SOURCES	43,524	45,048	(1,524)	55,996
<u>OTHER FINANCING SOURCES</u>				
Transfer from General Fund	48,467	45,746	2,721	48,684
TOTAL REVENUES AND OTHER FINANCING SOURCES	91,991	90,794	1,197	104,680
<u>EXPENDITURES</u>				
Professional Salaries	28,970	-	-	31,813
Nonprofessional Salaries	6,780			7,997
FICA/Retirement	6,891			7,082
Supplies and Materials	7,509			5,178
Capital Outlay	-			-
Other	41,733			48,975
TOTAL EXPENDITURES	91,883	90,686	(1,197)	101,045
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	108	108	-	3,635
FUND BALANCE, JULY 1	4,771			1,136
FUND BALANCE, JUNE 30	\$ 4,879			\$ 4,771

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SPECIAL REVENUE FUND – NIMROD MANIA FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	\$106,226	\$ 76,329
Inventory	24,160	23,339
TOTAL ASSETS	<u>\$130,386</u>	<u>\$ 99,668</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Sales Tax	<u>207</u>	<u>455</u>
TOTAL LIABILITIES	207	455
<u>FUND EQUITY</u>		
Fund Balance - Reserved for Special Programs	<u>130,179</u>	<u>99,213</u>
TOTAL FUND EQUITY	130,179	99,213
TOTAL LIABILITIES AND FUND EQUITY	<u>\$130,386</u>	<u>\$ 99,668</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPEICAL REVENUE FUND – NIMROD MANIA FUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>FISCAL YEAR ENDED JUNE 30, 2006</u>			FISCAL YEAR ENDED 6/30/05
	<u>ACTUAL</u>	<u>BUDGET</u>	VARIANCE Favorable (Unfavorable)	
<u>REVENUES</u>				
Sales	\$ 86,599	\$ -	\$ -	\$ 162,522
Donations	725			21
Interest	2,204			390
Miscellaneous	2,194	-	-	-
TOTAL REVENUES	\$ 91,722	\$ 89,008	\$ 2,714	\$ 162,933
<u>EXPENDITURES</u>				
Nonprofessional Salaries	\$ 7,276	\$ -	\$ -	\$ 12,181
FICA/Retirement	1,717			2,659
Purchased Services	3,887			9,802
Supplies and Materials	23,398			41,748
Other	4,816			7,281
Program Support :				
Athletics	7,918			23,243
Building and Grounds	90			3,041
Educational	9,895			2,365
Fine Arts	736			1,560
Recreation	1,023	-	-	31
TOTAL EXPENDITURES	\$ 60,756	\$ 61,826	\$ 1,070	\$ 103,911
Excess of Revenues Over (Under) Expenditures	30,966	27,182	3,784	59,022
FUND BALANCE, JULY 1	99,213			40,191
FUND BALANCE, JUNE 30	<u>\$130,179</u>			<u>\$ 99,213</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

DEBT RETIRMENT FUND – BUILDING AND SITE -COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 128,226	\$ 121,908
Delinquent Taxes Receivable	<u>3,746</u>	<u>4,137</u>
TOTAL ASSETS	<u>\$ 131,972</u>	<u>\$ 126,045</u>
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>131,972</u>	<u>126,045</u>
TOTAL FUND EQUITY	<u>\$ 131,972</u>	<u>\$ 126,045</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIREMENT FUND – BUILDING AND SITE - COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Property Taxes	\$ 491,914	\$ 473,386
Interest & Penalties on Taxes	3,602	1,310
Other Taxes	7,352	3,747
Interest on Investments	<u>8,064</u>	<u>5,454</u>
TOTAL REVENUES	\$ 510,932	\$ 483,897
 <u>EXPENDITURES</u>		
Building and Site Bonds		
Principal	\$ 190,000	\$ 160,000
Interest	314,755	322,115
Other	<u>250</u>	<u>-</u>
TOTAL EXPENDITURES	\$ 505,005	\$ 482,115
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures	 5,927	 1,782
 FUND BALANCE, JULY 1	 <u>126,045</u>	 <u>124,263</u>
FUND BALANCE, JUNE 30	<u>\$ 131,972</u>	<u>\$ 126,045</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS –
COMPARATIVE BALANCE SHEET**

JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL ASSETS	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<u>FUND EQUITY</u>		
Fund Balance	<u>-</u>	<u>-</u>
TOTAL FUND EQUITY	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS -
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006
(With comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>	\$ -	\$ -
TOTAL REVENUES	\$ -	\$ -
<u>OTHER FINANCING SOURCES</u>		
Transfer In - General Fund	<u>26,767</u>	<u>26,767</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	26,767	26,767
<u>EXPENDITURES</u>		
Principal	26,667	24,000
Interest	-	2,667
Other	<u>100</u>	<u>100</u>
TOTAL EXPENDITURES	26,767	26,767
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	-	-
FUND BALANCE, JULY 1	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

CAPITAL PROJECTS FUND – BOUNDLESS PLAYGROUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	\$ -	\$ 3,258
Grants Receivable	<u>17,500</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 17,500</u>	<u>\$ 3,258</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due To Other Funds	<u>17,500</u>	<u>-</u>
TOTAL LIABILITIES	17,500	-
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>-</u>	<u>3,258</u>
TOTAL FUND EQUITY	-	3,258
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 17,500</u>	<u>\$ 3,258</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**CAPITAL PROJECTS FUND – BOUNDLESS PLAYGROUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Grant Income	\$ 70,000	\$ -
Interest	<u>26</u>	<u>16</u>
TOTAL REVENUES	\$ 70,026	\$ 16
 <u>EXPENDITURES</u>		
Miscellaneous	402	-
Capital Outlay	<u>72,882</u>	<u>-</u>
TOTAL EXPENDITURES	73,284	-
 Excess of Revenues Over (Under) Expenditures	 (3,258)	 16
 FUND BALANCE, JULY 1	 <u>3,258</u>	 <u>3,242</u>
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ 3,258</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

CAPITAL PROJECTS FUND – BUILDING AND SITE – COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	\$ -	\$ 231,246
Due From Other Funds	<u>17,500</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 17,500</u>	<u>\$ 231,246</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	-	231,246
Due To Other Funds	<u>17,500</u>	<u>-</u>
TOTAL LIABILITIES	17,500	231,246
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>-</u>	<u>-</u>
TOTAL FUND EQUITY	-	-
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 17,500</u>	<u>\$ 231,246</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**CAPITAL PROJECTS FUND – BUILDING AND SITE – STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Interest	\$ 1,518	\$ 27,474
Miscellaneous	-	184
TOTAL REVENUES	\$ 1,518	\$ 27,658
 <u>EXPENDITURES</u>		
Construction	1,067	964,688
Architectural and Engineering	-	34,013
Legal and Other	-	1,364
Furniture/Equipment	2,326	172,869
Project Management	-	81,714
Land Improvements	-	166,853
TOTAL EXPENDITURES	3,393	1,421,501
 Excess of Revenues Over (Under) Expenditures	 (1,875)	 (1,393,843)
<u>OTHER FINANCING SOURCES (USES)</u>		
Unrealized Gains (Losses)	1,141	(2,234)
Transfer In - General Fund	734	-
TOTAL OTHER FINANCING SOURCES (USES)	1,875	(2,234)
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 -	 (1,396,077)
 FUND BALANCE, JULY 1	 -	 1,396,077
FUND BALANCE, JUNE 30	\$ -	\$ -

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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CAPITAL PROJECTS FUND – LVD PROJECTS – COMPARATIVE BLANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 125,432	\$ 65,082
Accounts Receivable	<u>945</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 126,377</u>	<u>\$ 65,082</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due To Other Funds	29,000	-
Accounts Payable	<u>1,400</u>	<u>-</u>
TOTAL LIABILITIES	30,400	-
 <u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>95,977</u>	<u>65,082</u>
TOTAL FUND EQUITY	95,977	65,082
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 126,377</u>	<u>\$ 65,082</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**CAPITAL PROJECTS FUND – LVD PROJECTS – STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Grant Income	\$ 55,000	\$ 65,000
Interest	<u>668</u>	<u>82</u>
TOTAL REVENUES	\$ 55,668	\$ 65,082
 <u>EXPENDITURES</u>		
Capital Outlay	<u>24,773</u>	<u>-</u>
TOTAL EXPENDITURES	24,773	-
 Excess of Revenues Over (Under) Expenditures	 30,895	 65,082
 FUND BALANCE, JULY 1	 <u>65,082</u>	 <u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 95,977</u>	<u>\$ 65,082</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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TRUST AND AGENCY FUND - BALANCE SHEET

JUNE 30, 2006

ASSETS

Cash and Deposits	\$ 64,305
TOTAL ASSETS	\$ 64,305

LIABILITIES AND FUND BALANCE

LIABILITIES

Due To Student Groups and Other	24,916
TOTAL LIABILITIES	24,916

FUND BALANCE

Reserved for Scholarships	39,389
TOTAL FUND BALANCE	39,389

TOTAL LIABILITIES AND FUND BALANCE	\$ 64,305
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The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

FISCAL YEAR ENDED JUNE 30, 2006

	JULY 1, 2005	RECEIPTS	DISBURSEMENTS	JUNE 30, 2006
<u>STUDENT ACTIVITIES</u>				
General Activities	\$ 2,560	\$ 40,513	\$ 41,155	\$ 1,918
Class of :				
2006	9,402	24,310	33,629	83
2007	3,107	12,674	5,580	10,201
2008	1,315	5,543	2,823	4,035
2009	-	5,311	3,868	1,443
Student Council	565	1,967	1,619	913
Yearbook	883	6,491	3,148	4,226
Varsity Club	2,594	5,603	8,197	-
Pencil Fund	317	-	-	317
Spanish Club	443	6	-	449
HS Girls Basketball Camp	342	-	342	-
Cheerleaders	-	4,680	4,437	243
Drama Club	-	1,213	380	833
All-Class Reunion	1,482	1,428	2,655	255
TOTAL STUDENT ACTIVITIES	\$ 23,010	\$ 109,739	\$ 107,833	\$ 24,916
<u>SCHOLARSHIP ACCOUNTS</u>				
Scholarship Accounts	38,063	1,662	950	38,775
Band Instrument Fund	113	501	-	614
TOTAL SCHOLARSHIP ACCOUNTS	38,176	2,163	950	39,389
TOTALS	<u>\$ 61,186</u>	<u>\$ 111,902</u>	<u>\$ 108,783</u>	<u>\$ 64,305</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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PROPERTY TAX DATA

FOR THE YEAR ENDED JUNE 30, 2006

<u>YEAR LEVIED</u>	<u>LEVY</u>	<u>COLLECTIONS AND ADJUSTMENTS</u>	<u>BALANCE JUNE 30, 2006</u>
<u>GENERAL FUND</u>			
2005-06	\$ 1,625,086	\$ 1,623,165	\$ 1,921
2004-05	1,485,101	1,483,741	1,360
2003-04	1,306,175	1,303,569	2,606
2002-03	1,251,879	1,250,853	1,026
2001-02	<u>1,184,732</u>	<u>1,183,320</u>	<u>1,412</u>
TOTAL GENERAL FUND	6,852,973	6,844,648	8,325
<u>DEBT RETIREMENT FUND</u>			
2005-06	491,892	490,924	968
2004-05	473,386	472,643	743
2003-04	463,794	462,103	1,691
2002-03	<u>392,801</u>	<u>392,457</u>	<u>344</u>
TOTAL DEBT RETIREMENT	<u>1,821,873</u>	<u>1,818,127</u>	<u>3,746</u>
TOTAL ALL FUNDS	<u>\$ 8,674,846</u>	<u>\$ 8,662,775</u>	<u>\$ 12,071</u>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Watersmeet Township School District
Watersmeet, Michigan 49969

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of the **Watersmeet Township School District**, as of and for the year ended June 30, 2006, which collectively comprise the **Watersmeet Township School District's** basic financial statements, and have issued our report thereon dated July 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

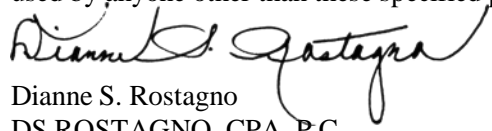
In planning and performing our audit, we considered the **Watersmeet Township School District's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Watersmeet Township School District's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the **Watersmeet Township School District** in a separate letter dated July 26, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" being more prominent.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

July 26, 2006

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Board of Education
Watersmeet Township School District
Watersmeet, Michigan 49969

In planning and performing the audit of the financial statements of the **Watersmeet Township School District**, we considered the School's internal control structure to plan the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated July 26, 2006 on the financial statements of the **Watersmeet Township School District**. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate School officials, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. Our comments are summarized as follows:

BUDGETARY

Problem

During the fiscal year ended June 30, 2005, the School District incurred several expenditures which were in excess of amounts appropriated.

Recommendation

It was recommended that, in the future, closer monitoring be done in regards to budgetary appropriations and expenditures.

Resolution

Although slightly improved, during the fiscal year ended June 30, 2006 there was again several expenditures which exceeded appropriated amounts.

Current Recommendation

Closer monitoring is required, comparing budgetary appropriations to expenditures.

STUDENT ACTIVITIES

Problem

In conjunction with the prior audit, we reported to the District that all records pertaining to the various student activities are reported and maintained by School District office personnel. Student groups generally lack the knowledge of the amount of earnings, expenditures, and year-end balances in their accounts. Therefore, there is no method to confirm transactions or balances in any group activity. Detection of clerical errors or fraud is therefore more difficult.

STUDENT ACTIVITIES (Continued)

Recommendation

It was recommended that each student group maintain its own set of accounting records, keeping a running total of all fund-raising revenues, expenses, and ending cash balances. At year-end, these records should be turned in to the office of the principal, where they are to be held for safe-keeping. These records should then be made available to provide an independent confirmation of activities and balances at the time of audit.

Signature of group advisors should be provided at year-end to confirm their agreement with these accounting records.

Every group activity should be required to comply with this requirement, without exception.

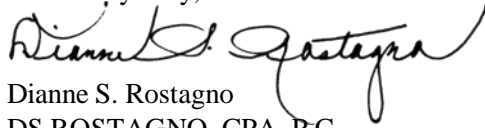
Resolution

This has not yet been resolved.

The above recommendations have been discussed with school officials.

It has been a pleasure working with the administration and staff, and I wish to express my appreciation for their cooperation and assistance during the audit engagement.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Dianne S. Rostagno".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

July 26, 2006